

## **THE STATE BUDGET CHALLENGE**

North Carolina faces unprecedented challenges to the viability of our budget. Since taking office in January 2001, I have been forced twice to declare a fiscal emergency to reduce state spending in the middle of the fiscal year. These declarations were necessary in order to allow me to meet my constitutional obligation to balance our state's budget. Last year, we were able to balance the budget without using local government funds.

This year, I have ordered the escrow of \$209 million in monies that would otherwise flow to local governments. This \$209 million is part of \$1.3 billion that I have identified to be used, if needed, to meet my constitutional obligation to balance the 2001-02 budget. Because the shortfall is so significant, I have been forced to drain state reserves, eliminate vacant positions, and lay off employees at the state level. The reductions in general fund spending and use of some other state funds to balance the budget total about 11 percent of total appropriations. Make no mistake—state government has been hit, and hit hard, by these tough budgetary times. The revenue shortfall is the largest in the last quarter-century by any measure.

Once we have the April 15 revenue numbers, I will know if it is viable to release these funds. This year, the first payment is due to you March 15 and the remainder is due in May and June. If payments to you are delayed 30 to 45 days, I know that it requires you to borrow from your reserves, but there are no other options. I am unable to delay Medicaid payments or teacher paychecks. I take my constitutional requirement to balance the budget seriously, but I also take seriously the state's obligation to see that you receive your appropriation.

Some of you have written to me asking why you were not informed earlier about the need to escrow these monies. The weakness of the economy, exacerbated by the events of September 11, caused the shortfall. Our revenue forecasters, like those in 43 other states, did not predict the scope of the shortfall until January income tax returns. We anticipated a shortfall since last fall, when first quarter revenues were lower than expected. But the January numbers showed that the problem would be greater than anticipated, forcing me to act within days to let you know that these payments would be delayed.

On February 13, I had the opportunity to meet with representatives from your League's Executive Committee and other local leaders. We had a very frank and open discussion and agreed to continue a dialogue on the budget to share information and ideas in the coming months. My senior staff has met several times with your staff in this effort.

I have asked a group of key business, academic and government leadership to take a close look at government efficiency and our revenue structure. Lucy Allen, former Mayor of Louisburg, and Jeff Morse, City Manager of Valdese, serve on these commissions. These leaders will examine spending patterns at the state and local level as well as impediments that affect our ability to be flexible and they will review our 70-year old tax structure and look for improvements. If you have any suggestions or ideas, please contact my Senior Policy Advisor for Fiscal Affairs, Dan Gerlach, at (919) 733-5811.

I have confidence in your leadership and I am willing and eager to work with you on all matters to ensure that we continue to make progress in North Carolina. Even in this time of recession, I firmly believe that we can work together to make sure we are the State that continues to protect our investments in our schools, recruits and retains high quality jobs in your community and provides vital services to our citizens.